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WESTERN WARNER OILS LTD.

Annual Report

1968

5 MILLION
BARRELS

4 MILLION
BARRELS

3 MILLION
BARRELS

2 MILLION
BARRELS

1 MILLION
BARRELS

COMPANY'S OIL RESERVES

JULY, 1966

JULY, 1967

JULY, 1968

REPORT OF THE DIRECTORS:

November 6, 1968

TO THE SHAREHOLDERS

The past year has been a good one for Western Warner Oils Ltd.

	July 31, 1968	July 31, 1967
Oil Reserves	5,070,000 Barrels	929,000 Barrels
Gas Reserves	8.3 Billion Cu. Ft.	5 Billion Cu. Ft.

We drilled three wells at Pembina and all were completed as producers from the Belly River Sandstone Formation. A significant fact is that all of these wells were step-outs and at the time of drilling were classified as wildcats. It may be assumed that the land between these wells, which we own, is proven oil land. Warner now has five wholly-owned wells in this field and room for seven more development wells.

Because of a provision in the Alberta Government Oil Conservation Act we do not think it will be necessary for us to drill development wells. Warner has the right to apply to the Conservation Board for a Production Block or Production Spacing Unit on its land. This means that instead of drilling one well per one hundred and sixty acres we will only have to drill one well per six hundred and forty acres. This will be a large saving in capital costs and result in a much more efficient producing operation.

We are well advanced with the engineering and technical work required by the Conservation Board to approve the project. We have installed a gas gathering system and are cycling gas back into the producing formation. This gas cycling does three important things: It allows for increased oil allowable because gas is not being wasted, it is the first step in a secondary recovery project that will greatly increase the amount of recoverable oil and conserves the gas for future sale. If all goes well we should have a large increase in our income during the coming year.

You will see on the map of our Pembina development that a new oilwell has been drilled by another company on 6-9-47-4W5. Production casing was run on this well during the third week of October. Acreage which Western Warner has under commitment lies inside of this well and indicates that the producing sand should be under Warner's land. This well has given Warner valuable information at no cost to us.

Imperial Oil Limited have advised us that they will not exercise their option to do further work on Warner's phosphate property in British Columbia. The properties are now owned 100% by Warner.

Imperial drilled 7 widely spaced core holes on the 110 claims. Two of the holes drilled $\frac{1}{2}$ mile apart, in the immediate area where Warner had conducted its 1967 exploration program had the following results:

Hole #1. Total depth 76'.

Interval 57' to 61' - Black phosphate pellets (.3 - .7 mm in size). Tested positive by phosphate test.

Hole #2. Total depth 46'.

Interval 41' to 44' - Black phosphate rock, pelletoidal (.25 - .7 mm). Estimated 36" of good grade phosphate rock.

Mr. Fred Peel P. Geol., who has conducted Warner's phosphate exploration is presently doing a study of the Imperial report after which we will formulate plans for the area. In our opinion the properties are still an excellent prospect but shareholders should consider them as supplementary to our basic oil operation.

In this attempt to find Canada's first commercial deposit of phosphate the shareholders have been part of an exciting and intelligent venture. We were able to narrow the search down to a few square miles and found the highest values ever known in Canada. We were able to bring in Canada's largest oil company as a partner who reimbursed us for all of our expenses and paid the full cost of exploration work. There now remains one more thing to do: we will take a look this coming summer around the area where the good values were obtained in the two core holes mentioned above.

Western Warner doubled its income during the past year and we expect the income will rise substantially this year. We have financed our drilling program through a bank. This method has been advantageous to the shareholders because we did not sell treasury shares at a low price to raise money.

Warner has been fortunate in its shareholders. They have been loyal and good boosters which is a very valuable asset to any company. Your company is on the lookout for deals that fit our resources. We prefer, if possible, to take the whole risk and not to have a small percentage interest. This shows in our 100 % working interest ownership in the drilling at Pembina. As much as we can we will try to have the largest single interest in any deal we go into.

The outlook for Western Warner Oils is very good.

On behalf of the Directors,
G. E. Evans, President

TOWNSHIP No. 47, RANGE 4,
WEST OF 5th MERIDIAN

LEGEND

Producing



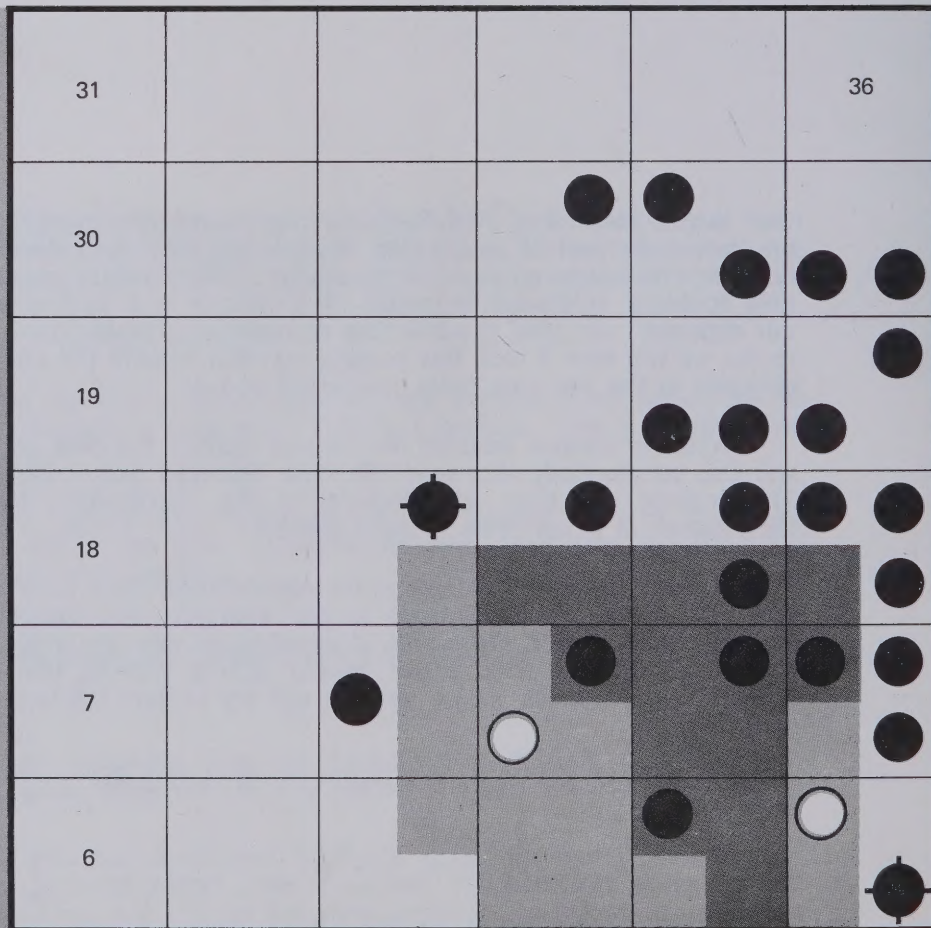
Location



100% Ownership



Option to Earn 100%



AUDITORS' REPORT

To the Shareholders of

Western Warner Oils Ltd.

We have examined the balance sheet of Western Warner Oils Ltd. as at July 31, 1968 and the statements of income, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at July 31, 1968 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CALGARY, Alberta

October 10, 1968

THORNE, GUNN, HELLIWELL & CHRISTENSON

Chartered Accountants

ASSETS

	<u>1968</u>	<u>1967</u>
CURRENT ASSETS		
Cash	\$ 46,517	\$ 94,737
Accounts receivable	5,053	10,849
Inventory, at market value	1,868	
	<u>53,438</u>	<u>105,586</u>
OTHER ASSETS		
Refundable performance deposits	7,215	4,699
Royalty interest, at cost	32,197	32,197
	<u>39,412</u>	<u>36,896</u>
FIXED ASSETS, at cost		
Equity in petroleum properties	68,260	19,110
Development, petroleum properties	207,328	120,488
Equipment	58,364	23,274
	<u>333,952</u>	<u>162,872</u>
Less accumulated depreciation and amortization (note 1)	13,363	6,392
	<u>320,589</u>	<u>156,480</u>
Mining claims	2,022	5,622
Preliminary development, mining claims	17,241	10,786
	<u>339,852</u>	<u>172,888</u>
	<u>\$ 432,702</u>	<u>\$ 315,370</u>

R OILS LTD.
(laws of Canada)
JULY 31, 1968
s at July 31, 1967)

LIABILITIES

	<u>1968</u>	<u>1967</u>
CURRENT LIABILITIES		
Bank loan (note 2)	\$ 140,000	\$ 80,000
Accounts payable and accrued liabilities	27,111	15,028
	<u>167,111</u>	<u>95,028</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 3)		
Authorized		
5,000,000 Shares of no par value		
Issued		
3,262,309 Shares (3,137,309 Shares in 1967)	653,870	612,120
DEFICIT	388,279	391,778
	<u>265,591</u>	<u>220,342</u>

Approved by the Board:

DIRECTOR G. E. EVANS

DIRECTOR J. B. McINTYRE

\$ 432,702

\$ 315,370

WESTERN WARNER OILS LTD.
STATEMENT OF INCOME
YEAR ENDED JULY 31, 1968
(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
Crude oil and gas sales	\$ 63,315	\$ 29,981
Less royalties and operating costs	20,860	8,289
	<hr/> 42,455	<hr/> 21,692
Expenses		
Lease rentals	12,084	4,418
Administration fee	6,900	6,000
Manager's salary	6,300	3,600
General and office	8,141	7,114
Interest	3,544	903
Professional fees	2,120	360
	<hr/> 39,089	<hr/> 22,395
Operating income (loss) before depreciation and amortization	<hr/> 3,366	<hr/> (703)
Deduct		
Depreciation of equipment	1,533	1,441
Amortization of petroleum properties	5,439	2,662
	<hr/> 6,972	<hr/> 4,103
Operating loss	<hr/> (3,606)	<hr/> (4,806)

Other income		
Farmout of mining claims	15,000	
Miscellaneous		2,154
	<u>11,394</u>	<u>(2,652)</u>
Profit (loss) on disposal and abandonment of properties	(5,284)	7,639
	<u></u>	<u></u>
NET INCOME FOR THE YEAR	<u>\$ 6,110</u>	<u>\$ 4,987</u>

STATEMENT OF DEFICIT
YEAR ENDED JULY 31, 1968
(with comparative figures for 1967)

BALANCE AT BEGINNING OF YEAR	\$ 391,778	\$ 396,765
Less net income for the year	6,110	4,987
	<u>385,668</u>	<u>391,778</u>
Add adjustment of prior year's income	2,611	
	<u></u>	<u></u>
BALANCE AT END OF YEAR	<u>\$ 388,279</u>	<u>\$ 391,778</u>

WESTERN WARNER OILS LTD.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JULY 31, 1968

1. DEPRECIATION AND AMORTIZATION

Petroleum properties and equipment are being written off on a unit of production basis.

2. BANK LOAN

The bank position is secured by a general assignment of the company's interest in certain producing properties and the proceeds of production therefrom.

3. CAPITAL STOCK

During the year the company issued 125,000 Shares for oil leases valued at \$41,750.

At July 31, 1968, an option to purchase 118,500 Shares remains outstanding, exercisable by the President at \$.271½ per Share on or before May 18, 1969. No Shares were purchased under this option during the year.

4. INCOME TAXES

The company is not liable for taxes on the current year's income. At July 31, 1968 exploration and development expenditures available for tax purposes in future years exceed the related costs deferred in the accounts by approximately \$25,000 and the undepreciated capital cost of equipment exceeds its net book value by approximately \$6,000.

5. COMPARATIVE FIGURES

Certain 1967 figures have been reclassified for comparative purposes.

WESTERN WARNER OILS LTD.
STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED JULY 31, 1968
(with comparative figures for 1967)

	<u>1968</u>	<u>1967</u>
SOURCE OF FUNDS		
Operations		
Net income for the year	\$ 6,110	\$ 4,987
Items not involving funds		
Depreciation and amortization	6,972	4,103
Loss (profit) on disposal and abandonment of properties	5,284	(7,639)
	<hr/> 18,366	<hr/> 1,451
Proceeds from sale of fixed assets	1,116	120,235
Issue of Shares	41,750	42,162
	<hr/> 61,232	<hr/> 163,848
 APPLICATION OF FUNDS		
Additions to fixed assets	180,336	172,920
Refundable deposits	2,516	2,199
Adjustment of prior year's income	2,611	
	<hr/> 185,463	<hr/> 175,119
 DECREASE IN WORKING CAPITAL	 124,231	 11,271
WORKING CAPITAL AT BEGINNING OF YEAR	10,558	21,829
	<hr/>	<hr/>
WORKING CAPITAL (DEFICIENCY) AT END OF YEAR	<u><u>\$ (113,673)</u></u>	<u><u>\$ 10,558</u></u>

DIRECTORS

WILLIAM C. CRAIG,
Executive Estimator

CAMPBELL P. EVANS,
Contractor

GEORGE E. EVANS,
Executive

KENNETH GODDARD,
Executive

JOHN B. MCINTYRE,
Salesman

NORMAN MCKINNON,
Retired

ERNEST H. PARKER,
Manager

OFFICERS

GEORGE E. EVANS,
President

JOHN B. MCINTYRE,
Vice-President

WILLIAM C. CRAIG,
Secretary, Treasurer

Head Office

NUMBER 4,
215a - 10TH STREET N.W.,
Calgary 41, Alberta

Field Office

DONALD NOYES,
*Field Supervisor,
Breton, Alberta*

Registrars and Transfer Agents

CROWN TRUST COMPANY,
*Crown Trust Building,
Calgary, Alberta*

Auditors

THORNE, GUNN, HELLIWELL
& CHRISTENSON
330 Ninth Avenue S.W.,
Calgary, Alberta

Legal Counsel

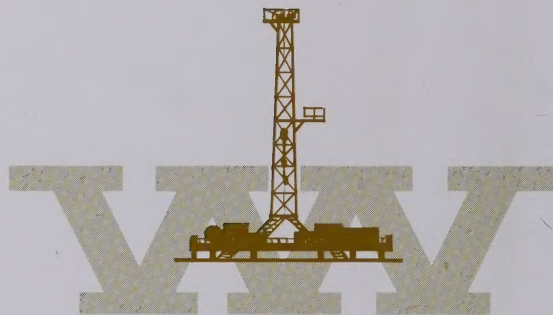
MACPHERSON, KELLY, O'NEILL
& MACLEOD
634 Sixth Avenue S.W.,
Calgary, Alberta

Bankers

ROYAL BANK OF CANADA,
Center Street & 8th Avenue S.W.,
Calgary, Alberta

Stock Listed

CALGARY STOCK EXCHANGE,
330 Ninth Avenue S.W.,
Calgary, Alberta



WESTERN WARNER OILS LTD.